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ABSTRACT

This chapter of "Principles of School Business Management" analyzes the types of budget preparation that are used in school districts across the United States. The chapter proposes as a basic premise that the budgetary process is inherently political, and states that some budgeting methods may provide more useful political information than others. The relative utility of budgeting methods (given different community characteristics) is also considered, and the influence of changing political and technical factors on districts' choices of appropriate budgeting methods are examined. The chapter begins with a review of historical trends influencing budgeting since before the turn of the century. The chapter next reviews seven characteristics of budgeting systems that can affect participation in resource allocation. Political, economic, and demographic influences are considered next. The chapter then recommends the components of an ideal budget. Factors to consider when choosing a budgeting framework are analyzed, including aspects of function-object budgeting and decentralized budget structures. The chapter concludes with descriptions of school-site, program, and zero-based budgeting. In summary, the chapter presents four reasons that choosing an appropriate budget method is an important decision for a district. Thirty-three footnotes are provided. (PGD)

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Educational Budget Preparation: Fiscal and Political Considerations

Ellen Kehoe

Many distinguished scholars who have examined the budgeting process have concluded that there is an absence of a theory to guide resource allocation decisions. The basic premise of this chapter is that the budgetary process is inherently political; hence, both technical and political factors will be considered in an analysis of the various types or modes of budget preparation that are used in school districts across the country. However, it is likely that some frameworks for budgeting may provide relatively more useful political information than others. In fact, choice of a particular budgeting method may well be one of the most important choices made by school business administrators.

Furthermore, the appropriateness and political acceptability of a particular budgeting method is likely to vary according to the characteristics of the community, board members, school administrators and teachers as well as the relative political influence of each group. Actually, one could say that the relationship between political influences and the operation of a particular budgeting method is somewhat circular. The choice of a budgeting method is affected by the political arena, yet once a budgetary framework is chosen it may work to the relative advantage or disadvantage of various political actors and therefore will shape the future political arena. Limited research has been conducted on the relationship between the operation of a budgeting method and the political arena of the school district. Therefore, much of the work in this chapter is exploratory in nature, moving toward the establishment of a research agenda, due to the lack of a substantial body of empirical work in this area.

In order to understand the relationship between the relative utility of a budgeting method and the political arena in which it operates, it is important to consider how differences in community characteristics relate to the relative utility of a budgeting method. In addition, however, political and technical factors have shaped the evolution of budgeting processes over time. As the political arena in local school districts has changed during this century, one can begin to explore how a changing political arena has influenced choice of an appropriate budgeting method. Therefore, an analysis of the historical trends affecting the governance of local school districts is also useful.

Historical Trends Influencing Budgeting

Some of the basic components of the present system of budgeting and fund accounting in local school districts stem from the establishment of a system of checks on the executive branch of government.[1] Over the years the controversy between the executive and legislative branches of government at all levels, including between school boards and school administrators, has continued,[2] particularly with respect to whether legislatures have an appropriate amount of control in comparison to executive branches. Again, the nature of this debate and the extent to which school boards or superintendents are given control over the budget varies from district to district as well as from one historical time period to another. One excellent illustration of the statement that this controversy remains unresolved can be seen in the simultaneous existence of both unitary and dual systems of control in school districts in the United States. Unitary control exists in the majority of school districts in this country. In other words, the business manager or assistant superintendent for business reports to the superintendent, who in turn reports to the school board. In some districts in New Jersey and Pennsylvania dual control exists. Here the primary fiscal officers for the district report directly to the board.[3] This system dates back to the beginning of the century when school boards in large urban districts commonly hired a superintendent for instruction and a superintendent for business to administer board policy in these respective areas.[4] While one could say that the relative degree of legislative influence may be greater where systems of dual control exist (or existed in the past), dual control is likely to have resulted in problems in coordination between the fiscal and programmatic aspects of school management. This is likely to be especially true where there are large school boards or where there are many sub-committees on the board.

At the turn of the century school board members were elected using partisan and ward-based elections which were held concurrently with partisan elections for state and federal offices. Consequently, those board members who were elected tended to think of themselves not as trustees protecting the general welfare of students attending schools in the district, but as delegates of the partisan constituencies which elected them. Kirst has noted that corruption was common during the period from 1890-1910. He has cited historical accounts from superintendents during this period who state that board members often used political influence to allocate teacher positions to friends who may have been unqualified to teach a given subject matter. Kirst also states that during this time period there were "textbook publishers and contractors who allied themselves with corrupt school trustees for common boodle in the common school."[5] As a result of political pressures from board members to increase expenditures in order to sell political favors to teachers, vendors and contractors, it became necessary to maintain a budgeting method which made it possible to monitor fiscal resources closely.

Object-of-expenditure budgets, which became increasingly more important in the early twentieth century, allow for an end of the year comparison of actual expenditures with appropriations for various objects of expenditure such as salaries, benefits, supplies, etc. The National Center for Educational Statistics has recently classified expenditures by both object and function for federal reporting purposes, as well by program for optional use by school districts. The following represents an object classification of expenditures.[6]

PERSONAL SERVICES-SALARIES
- Salaries of regular employees
- Salaries of temporary employees
- Salaries for overtime
- Salaries for sabbatical leave

PERSONAL SERVICES-EMPLOYEE BENEFITS
- Group insurance
- Social Security contributions
- Retirement contributions
- Tuition reimbursement
- Unemployment compensation
- Worker's compensation
- Other employee benefits

PURCHASED PROFESSIONAL AND TECHNICAL SERVICES
- Official/administrative services
- Professional-educational services
- Other professional services
- Technical services

PURCHASED PROPERTY SERVICES
- Utility services
- Cleaning services
- Repairs and maintenance services
- Rentals
- Construction services
- Other purchased property services

OTHER PURCHASED SERVICES
- Student transportation services
- Insurance (other than employee benefits)
- Communications
- Advertising
- Printing and binding
- Tuition:
  - Tuition to other LEAs within the state
  - Tuition to other LEAs outside the state
  - Tuition to private sources
  - Tuition-other
- Travel
- Miscellaneous purchased services

SUPPLIES
- General supplies
- Energy
- Books and periodicals

PROPERTY
- Land and improvements
- Buildings
- Equipment

OTHER OBJECTS
- Dues and fees
- Judgments against the LEA
- Interest
- Miscellaneous expenditures

OTHER USES

Redemption of principal

Housing Authorities obligations

As part of a broad attempt to restructure the prevailing system of educational and municipal governance in the early part of this century, reformers sought to replace the ward-based partisan election system with one which would be essentially non-partisan and where candidates would be elected at-large in elections which would be held separately from state and federal elections. This reform process also resulted in increasing the relative power of professionals over the community in many school districts. As the reform resulted in decreasing the number of board members and the proportion of board members from less wealthy areas of the community, one could say that the responsiveness of the district to the average community member also declined.[7] In addition, the increasing proportion of board members who were professionals contributed to the likelihood that the board would give greater latitude to the superintendent to exercise his or her judgment as an educational expert.[8]

Moreover, while the superintendent generally was a full-time paid employee, school board members were often part-time volunteers who had otherwise time-consuming careers or other responsibilities. Therefore, one could say that the relative power of the executive over the legislature may have increased during this time period. This is not to say that educational services may not have been delivered more equitably and efficiently after the reform movement, but rather that this may have been done at the expense of responsiveness to the community. This lack of responsiveness to the community is also evident in the object-of-expenditure budgeting format which does little to communicate to the community the purposes for which their tax dollars have been dedicated.

During the middle of this century, budgeting formats in many districts were changed to provide more information regarding the general purpose (or function) for which moneys were expended such as instruction, administration, community services and so on. The following is a classification of expenditures by function:[9]

INSTRUCTION

SUPPORT SERVICES

Support services-students:

Guidance services

Health services

Psychological services

Speech pathology and audiology services

Other support services-students

Support services-instructional staff:

Improvement of instruction services

Educational media services

Other support services-instructional staff

Support services-general administration:

Board of education

Executive administration services
Special area administration services

Support services-school administration:
Office of principal service
Other support services-school administration

Support services-business:
Fiscal services
Printing, publishing and duplicating services
Other support services-business

Operation and maintenance of plant services:
Supervision of operation and maintenance of plant services
Operating building services
Care and upkeep of grounds services
Vehicle operation and maintenance services
Security services
Other operation and maintenance of plant services

Student transportation services:
Supervision of student transportation services
Vehicle operation services
Monitoring services
Vehicle servicing and maintenance services
Other student transportation services

Support services-central:
Planning, research, development and evaluation services
Information services
Staff services
Data processing services
Other support services

Facilities acquisition and construction services
Other uses:
Debt services

While this method did not go very far toward a performanced-based approach, it did provide useful cost information to the school board and the public. There are a variety of reasons which may explain the move toward a more standardized function-object system of budgeting. It is often suggested that an increasing state role in financing and governing education has contributed to a more uniform and detailed system of budgeting.

In the process of increasing the portion of school funds generated from state revenue sources, it is only natural that the states would insist on better planning and accounting for those funds. Gradually, the states enacted laws establishing guidelines for local school districts in the receipt and disbursement of school funds. The extent of these requirements and the degree of detail in accounting have increased

to the point that most states now have accounting manuals with standardized budgeting and accounting procedures for districts within the state.

More recently, pressures from a variety of sources have created an impetus for some districts to implement budgeting systems which link costs to programs and/or organizational units. Community demands for more accountability may also have been influential in increasing the relevancy of the cost information available to the public. In addition, teachers' unions have become increasingly sophisticated in analyzing school districts' budgets prior to negotiations to determine possible "slack" resources available to increased teacher salaries. These factors, along with state regulations affecting the budgeting process, have heightened pressure on school boards and school administrators to consider the various pros and cons of budgetary frameworks currently available. These include such frameworks as school-site budgeting, program budgeting and zero-based budgeting, in addition to function-object budgeting which is still the most common approach. In a subsequent section, the strengths and weaknesses of each of these budget methods for certain types of communities will be discussed. For each of these frameworks, the particular relative benefits will depend on the characteristics of the community as well as the relationship between the board and the superintendent.

Criteria for Development of a Budgeting System

As previously noted, the choice of an appropriate budgeting system may well be one of the most important choices made by school business administrators. In addition to this choice, school business administrators must make other important decisions which will shape the effectiveness and equity of the overall budgeting system. The budget represents a series of important policy decisions as to what programs and functions in the school district are given priority. The characteristics of a budgeting system affect (and reflect) decisions on who will have a say about how scarce resources are allocated in the district. Such characteristics include the following:

1. *Type of budgeting method*. This will affect the degree to which the board, administrators, teachers and the public are given the kind of cost information that will allow them to make an informed judgment as to whether the resources allocated in the budget relate appropriately to district needs.

2. *Level of centralization vs. decentralization*. This will affect the degree to which those at the school site level are able to reallocate school resources to meet the unique needs of each school.

3. *Level of participation*. The degree to which members of the community and educational professionals are allowed some input into the budget process may affect overall support for the proposed budget.

4. *Timeline for budget development*. The budget calendar may influence the level of participation in terms of whether adequate time is allowed for participation and whether the school community is given ample notice as to when such input is requested.

5. *Level of detail.* If the level of detail is very great, it may limit the flexibility of educational professionals to spend funds in such a way as to maximize educational benefit. (This, of course will depend on the way in which the budget is administered.) On the other hand, a detailed budget may also increase support for a budget as each constituency becomes more aware and is able to better defend the budget.

6. *The degree to which the budget is computerized.* Where cost information is available on computer, the administration may have greater capability to provide "what if" information to answer board questions about the fiscal impact of various policy decisions regarding the way resources might be allocated. In addition, with computers it becomes much easier to provide cost information using multiple budget methods.

7. *The degree to which an incremental approach will be utilized or whether programs must be justified "from zero."* This may influence the degree to which educational professionals feel that the budgeting system works fairly. For example, it is important to balance the need to provide incentives for a system to work effectively and efficiently by considering new approaches, while at the same time maintaining continuity.

In recent years, school business administrators, superintendents and school board members have begun to question whether the function-object (or line-item) based budgeting systems currently in place in a majority of school districts could be improved. A line-item budgeting method may limit the ability of the school board to govern the school district through its decisions regarding educational policy and the way in which resources will be allocated to carry out those policies. In fact, there will be few professionals in the district who do understand the relationship between resources and educational programs and support services. Consequently, while these few individuals may have more flexibility to allocate resources as a result of their specialized knowledge, a broad base of support for this particular budget is not likely to ensue as a result of the budgeting method utilized. Therefore, while the administration may have some advantage over the board as to determining how the budget should be developed and monitored, the amount of resources over which it may have increased control may be lower than if more information had been available to the board and the community as to the purposes for which additional funds may be needed.

As more school districts adopt budgeting methods which closely link dollars to educational programs and support services, there seems to be an implicit decision that the benefits gained from greater support outweigh the costs of sharing such information. In 1982, the American Association of School Administrators (AASA) published a report entitled *School Budgeting: Problems and Solutions* by Donald Hymes. In it Hymes described a variety of factors which called for a reexamination of budgeting in local school districts such as: taxpayer revolts, declining enrollment, increasing state involvement and declining public confidence in the public school system. As a result of these environmental factors and others, the following recommendations for change emerged:

- Start the budget process earlier.
- Involve more people.

- Clarify what you intend to do with the money.
- Write a budget that everybody can understand.
- Relate the budget to the instructional program.
- Use all available means to spread the school message throughout the community.
- Be accountable for district money.[10]

Political, Economic and Demographic Trends

In recent years, changes in political, economic and demographic trends have made it all the more important that budgeting methods adequately communicate to the public how taxpayer dollars will be used to support the school program. Despite the multitude of reform reports during the 1980s, it is not clear whether adequate financing to fund attempts to "reform" the public schools will be forthcoming. Federal aid to education has dropped considerably during the past five years. While many states have mandated new graduation requirements and other major initiatives designed to promote "excellence" in education in recent years, without adequate state financing, the ability of low-wealth school districts to meet new state mandates designed to promote "educational excellence" is severely constrained. If greater state aid does not follow greater state mandates, it will become increasingly difficult to sell budgets to local communities.

This problem will be exacerbated as taxpayers are no longer able to deduct local and state taxes in determining their federal personal income tax.[11] Local school districts may be facing increasing competition from private schools if we continue to move toward voucher and tuition tax credit plans. Presently, a number of districts offer a quasi-voucher plan limited to the public schools, called an open enrollment plan. Students have choices among schools or school programs in a given district. Where districts do elect to offer open enrollment plans it may become increasingly important that budget information is provided to the public showing costs by school to reflect stated educational priorities and in order to demonstrate that students throughout the district are afforded equal educational opportunities.

In addition, demographic data indicate that an increasing proportion of tomorrow's students will be from lower income, minority families. As the proportion of taxpayers with children in public schools diminishes, especially those from the middle to upper middle classes who are in a relatively advantaged position in the political arena, so does community support for school budgets.

Increased state aid to urban school districts may be necessary to maintain educational quality if competition from private schools increases and local support for public schools wanes. In addition, school officials should begin to consider the program and, therefore, budgetary implications stemming from a shift in the student population to one that is increasingly poor, minority, non-English speaking and from one-parent families. The implications of changing demographic trends regarding the political power needed to lobby successfully for sufficient revenues for school budgets from local, state and federal sources are especially important in large urban districts.

Other demographic factors may have an important impact on the ability of school officials to garner fiscal support for the public schools. In some districts enrollments will continue to decline. This is expected to be especially common in

the northeast region of the country. During times of declining enrollments, costs per pupil often increase as the fixed costs of buildings, heating, maintenance and operations and administration are spread over fewer students. In addition, total state aid declines as the number of pupils decreases. Unfortunately, at a time when it may be important to open the lines of communication in order to explain the reasons behind increasing per pupil costs and search for cost-effective alternatives, human nature is such that administrators may tend to:

> . . . involve fewer people in the decision-making process, and generally make very conservative decisions so as to avoid mistakes (Whetten, 1981). Needless to say, such behavior may reduce anxiety, but it works against innovative behavior by administrators and teachers. Consequently, the capacity to redefine organizational goals and find new ways of meeting them declines over time. Short-term stress reduction becomes a substitute for long-term solutions to fiscal retrenchment.[12]

Where enrollments have declined to such a degree that school closures are imminent, the problem of maintaining voter support for the school budget becomes increasingly complex. If a decision were made to close a school (or schools), community conflict would be likely to ensue and support for the school budget may diminish. However, if board members succumb to political pressures and do not close a school where enrollments have dropped drastically and a disproportionate amount of the budget is used to maintain half-empty schools, taxpayer support for public schools may also decline due to rising per pupil expenditures without a concomitant increase in educational quality. Under extreme circumstances, as in New York City, Chicago and Cleveland, the failure of school officials to close schools contributed to severe financial problems in each of these urban districts. Therefore, while the political costs of school closures may be high in terms of future support for school budgets, the consequences of inaction may be even greater. The degree to which a given strategy will be appropriate will depend on the culture of the particular district and its ability to finance the budget obligations of the public school system.

In some districts enrollments are increasing, especially at the elementary school level. In fact, by the year 2000 the number of school-age children is expected to increase by over five million, from 44.4 million in 1985 to 49.8 million in 2000.[13] The ability of school districts to increase their share of the tax dollar as demand for educational services rises, will depend on the degree to which they can effectively communicate those needs through the budget processes at the local, state and federal levels. This will be discussed in more depth in the last section of this chapter.

Recommended Components of an "Ideal" Budget

Harry Hartley, has developed a thorough outline for an "ideal" budget designed to increase public understanding of the important fiscal and educational issues facing school districts. The assumption is that a more informed public will be a more supportive public. The outline includes the following important areas:

I. BACKGROUND INFORMATION
   A. Title page and/or cover.
   B. Table of contents or index.

C. Letter of transmittal, legislative request and/or budget message, executive request, as required by law or custom.
D. Table of organization and/or program structure.
E. Budget assumptions, priorities and guidelines.
F. Budget calendar.
G. Explanation of budget terms, codes and procedures.

II. EXECUTIVE SUMMARY
A. Program budget summary.
B. A summary of the budget by function/object.
C. Budget crosswalk: programs and the objects within them.
D. A summary of the budget by location (school or other cost center).
E. Budget highlights.
F. Analysis of budget increase.
G. Comparison with previous year.
H. Revenue summary.

III. BUDGET DETAIL
A. Objects of expense.
B. Program profiles for each program.
C. Program budgets for each program.

IV. SUPPLEMENTARY INFORMATION
A. Enrollment projections.
B. Salary schedules, staffing profiles and employee benefits.
C. Bonded indebtedness.
D. Inflation impact statement.
E. Comparisons with other systems in the same geographical area and state and perhaps with comparably sized districts around the country.
F. Five-year budget history.
G. District goals of education.
H. Profile of the school district and of the town, county or city.
I. Examples of cost reduction.
J. Explanation of the use of a zero-based or program budgeting, if applicable.[14]

The outline is flexible in that it allows for inclusion of a variety of budgeting methods and more than one framework may be included to more fully illustrate how public funds are allocated within the district.

Factors To Consider in Choosing a Budgeting Framework

While the function-object budget format is still utilized by a majority of districts in a majority of states, attempts to "reform" local budgeting practices over the past two decades have been common. Professional associations, such as the Association of School Business Officials were early activists in this reform effort. This can be seen in the efforts of the Association to develop and disseminate relevant information about program budgeting systems such as the "Educational Resources Management System" and "Planning, Programming, Budgeting and Evaluating

System." In addition, there seems to be support from the American Association of School Administrators and the National School Boards Association to explore alternatives to function-object budgeting.

Some of the possible alternatives to (or complements of) the function-object budgeting method include: school-site budgeting, program budgeting, zero-based budgeting and the local planning and budgeting model. The latter is not so much a budgeting method, as a way of taking into account cost differences in order to ensure equal educational opportunity.

In choosing a budgeting method it is important to consider not only the technical matters which will affect the relative ease in which a framework can be implemented and administered, but also the political and symbolic aspects which may influence the degree to which the budgeting method selected will enhance community and staff support.

Function-Object Budgeting

The basic steps involved in developing a function-object budget generally contribute to the budget's incremental nature (or in recent times, decremental nature) in three important ways. First, prior to the time in which budget requests are forwarded to the central office, principals and teachers may have some idea as to the percentage increase of the current year's prospective budget as compared to the previous year's. If this is known, there will be a tendency by those submitting requests to "bargain" for their "fair share" of the increase. One of the political strategies will be to ask for more than is necessary knowing that a smaller amount will be allotted. In general, the total dollar amount of the requests will far outreach the total amount of dollars in the budget. Very little documentation may be provided as to the relative priority of a given request. When this happens the burden of proof realistically lies with central office and the board to demonstrate why a given functional area, for example, should not be given the same percentage increase as another functional area. This is especially difficult given the paucity of information provided to the board, superintendent and school business administrator about programmatic impact of reducing or increasing the budget and the general lack of understanding about the technology of "producing education."

Second, there may be very little consensus in the school community as to the relative priority given to the goals of schooling. Goodlad recently surveyed students, teachers and parents about what they considered the single most important goal of intellectual, personal, vocational or social. In general, there was little agreement with less than half the population agreeing on the primary importance being intellectual development. This lack of concurrence is especially true for the high school level.[15] In light of the difficulty in assigning priority rankings to goals, it becomes easier to justify across-the-board increases. Thus, the most important determinant of this year's budget is last year's budget.

Third, the function-object method tends to perpetuate the status quo. Those programs already in place have ready-made constituencies to defend their budget requests. What is more, very little justification is required because constituencies tend to rely on their history of operation. Only where a substantial increase in funding is requested will a substantial budget justification be necessary. Consequently, to avoid elaborate justifications, most constituencies settle for an average increase over last year's budget. This incentive system which perpetuates the status quo may be reflected in all three steps of the budget process: when requests are

forwarded up to the superintendent and school business manager, when budget requests are modified and a proposed budget is developed, and when the school board approves a budget.

The function-object budget also tends to be centrally operated. Many experts in the area of school budgeting agree that exemplary school budgets should contain not only a financial plan (with projected revenues and expenditures), but also an educational plan and a priority plan. With the use of function-object budgets, educational and priority plans are often not made explicit, although one could argue that by virtue of the decision to fund certain educational programs at certain levels, an implicit decision has been made as to what educational programs are to be offered in the district and what priority these competing programs are given when scarce resources are allocated. Without making these decisions explicit, school administrators and board members retain a high degree of control over the budgeting process. With a function-object budgeting system, the central office administrators who developed the draft budget are likely to retain a great deal of influence over the school board who will not have sufficient budget information to link costs to educational priorities. The board, therefore, has to rely on the reasons given by central office as to why certain budget items are expected to increase or decrease. This in not to say that board members may not be influential in setting budget priorities, but rather that the costs of obtaining the relevant information to make those decisions are relatively high with the function-object budgeting method.

Moreover, when compared to school-site budgeting, program budgeting or zero-base budgeting, principals may be disadvantaged regarding influence over expenditure decisions where function-object budgets are utilized. While principals and teachers are given input into the budgeting process through the budget requests they send to the central office, often times the process by which these requests are forwarded does not require a formal justification of program priorities which the budget implicitly reflects. Consequently, when budget cuts are made, superintendents and school business officials often do not have sufficient information about the principals' unique perspective about what budget items are likely to have the greatest impact on educational quality. If principals are given some input into both the initial budget development process and the "redevelopment" process, they are likely to be more supportive of the budget as it is approved.

School superintendents and school business administrators may be at a relative advantage with respect to function-object budgeting method in terms of their relatively great knowledge of how funds are allocated in the district that are at a disadvantage when compared to their colleagues in other districts who use budgeting frameworks which more closely link expenditures to programs and/or schools. While this will be discussed in more depth in a later section, it follows that where school administrators use centralized budgeting methods which tend to inhibit staff and community input, they may not receive the same level of political information about what factors influence the relative degree to which the community will support educational programs. Budgeting methods which are less centralized than the function-object method tend to facilitate the ability of school administrators to gather sufficient information and to be able to gauge the educational and financial priorities. With this kind of information, they are able to make decisions which are likely to be reflective of true community priorities and therefore, broaden the base of support for both the budget and the administrators.

Decentralized Budget Structures

For a variety of reasons, some of which have been previously noted, many school districts have begun to consider alternatives to the presently common line-item budget. Some of the reasons stem from the tendency of line-item budgeting to foster a system which is centralized, incremental and has limited community and staff participation. In some districts, growing community demands for accountability and increased school effectiveness may increase the attractiveness of budgeting frameworks which make school and program costs more visible. The fact that districts have become more sophisticated in computerizing their financial management systems facilitates innovation in implementing a new budgeting method, even in states which require that budgets be presented in a function-object format. Moreover, some states have been instrumental in the development of program budget methods and have moved toward statewide implementation, though with mixed success. In addition, the professional associations seem to be applying subtle pressure to encourage a move away from primary reliance on the line-item method. In a recent publication from the Association of American School Administrators (AASA), Hymes makes the following comment:

> Interestingly enough, 78 percent of the respondents to the survey for this report said they use line-item or object budgets in their districts. This raises the question: Could it be mere coincidence that 76 percent of the respondents said the budget problems facing their district were "more serious" now?[16]

Not all factors point toward an increasing trend away from function-object or line-item budgeting. On the contrary, some very influential forces remain committed to the status quo. Those school board members and administrators who have been accustomed to the function-object method may resist any change which would require additional skills development and may result in a shift in control over budgets. The impact of change on the latter is likely to vary depending on a district's characteristics and the types of budget methods involved.

Catherine Kennelly, Director of Financial Management for the Hartford Public School System, described some of the changes that occurred in her district has a result of a conversion from a program budget to a school-site budget:

> School principals suddenly had a clearer picture of the various accounts available for school programs. Conversely, subject coordinators saw themselves losing some control over funds they previously disbursed. Personnel staff had to accustom themselves to new formats for staffing reports. All these situations required an adjustment in thinking and operating and took time to resolve.[17]

Where a district may be moving from a function-object to a school-site, program or zero-base budgeting framework, it is likely to increase the amount of financial control of principals or subject coordinators relative to superintendents and school business officials. The degree to which central office administrators and board members are likely to show a preference for maintaining the function-object framework may depend on their willingness to adapt to change, the degree to which they may be willing to share control and the benefits to their community they may see for the relative effectiveness of a new type of budgeting framework.

Even where board members, administrators, teachers and the community may be receptive to a new type of budgeting framework, the process of implementation is likely to take two to three years for a complete changeover. During the first year, administrators and the school board may review the various structural options,

including the potential benefits of combining several types of frameworks in order to develop one uniquely suited to district needs. In the second year, training on the impact that the new method may have on budget development, budget administration and budget evaluation should be provided to board members and school personnel. While the school business administrator will have developed a new budget method for the second year, this may be "mostly for display purposes while people became accustomed to the revised financial reporting format."[18] During the third year of the implementation cycle, the new budget method will be fully operative.

Kennelly points out some side-benefits resulting from the conversion to a new budgeting framework. She reports that any system of financial reporting:

> . . . eventually develops levels of detail in various accounting dimensions that may be too broad or narrow or that may have been adapted to handle a particular situation that had not been taken into consideration at the time that the existing chart of accounts was developed. A systematic and well-planned implementation will result in a conversion that provides useful information for a variety of uses.[19]

Therefore, an initiative to implement a new budgeting system might not only be desirable to promote decentralization, accountability and community and staff participation, but also may result in a more effective and useful system of financial reporting.

Descriptions of some of the more popular alternative budgeting frameworks are provided below. These will be analyzed in terms of their effect on decentralization, accountability, participation and equity. In addition, the potential of each method to promote greater financial support will be analyzed. Finally, the incentive structure inherent in each framework will be discussed, with attention given to the relative advantages created for some groups as a result of the budget method.

School-Site Budgeting

In recent years educational researchers have advocated decentralized budgeting systems in order to enhance the ability of principals to serve as effective instructional leaders.[20] Firestone and Wilson make the case that the kind of budgeting process utilized or developed by school administrators may have an important influence on the culture of the school. They write that, "allocation of discretionary funds in a school in a manner that is fair and that provides extensive support for instruction can promote commitment among teachers and signal that instructional priorities are more important than is often the case."[21] Similarly, many practicing administrators also favor decentralized budgeting systems.[22]

School-site budgeting is, as the name suggests, a budgeting system which uses an individual school building with its attendant educational programs, as the framework, and places the principal at the center of the budgeting process. Arguments against this kind of structure typically include a concern over the principal's time, increased conflict among teachers or departments and lack of ability of the central administration to ensure educational quality and equality. On the other hand, an argument frequently raised in support of school-site budgeting is that it promotes accountability. Principals, with input from subject coordinators and teachers, may now have the autonomy to direct discretionary resources to best

meet the needs of their unique student groups. (Of course, this may be contingent on sufficient discretionary resources being available.)

The way in which school-site frameworks will be designed will depend partially on the degree to which school district officials believe principals can realistically be held accountable. For example, at the time when school-site budgeting was being introduced in Florida, a claim was made that the new budgeting framework would give principals an incentive to hold down energy costs. This claim assumes that principals should be held accountable for energy costs. In Fairfield, Connecticut, which uses a school-site budgeting system, a variety of cost categories are not included as part of the individual school's allocation including electricity, fuel and gas. Other categories not included are: attendance and social worker services, transportation, maintenance and operations and other support services. The assumption in Fairfield seems to be that principals should not be held accountable for costs and factors over which they have only minimal control. These include: the relative energy efficiency of the school building, the number of pupils needing the services of social workers, number of pupils transported and overall condition of the facilities.

Since it is important that the system of resource allocation take into account those students with special educational needs, prior to the time that the budget is determined, an enrollment projection is needed which takes into account those student characteristics that may affect the level of funding provided (e.g. special education, gifted, kindergarten and for some districts those who are chronically absent).

The system of school-site budgeting in Fairfield also works under the assumption that building principals should not be held accountable for the relative seniority of the teaching staff, especially in light of the fact that the large majority of teachers are tenured. Consequently, average salaries of teachers are used when developing staffing patterns. This means that schools are not penalized by receiving fewer staff positions solely because their teachers are more experienced. In Sanborn, New York, staff and supply costs were listed by subjects, but also the budget included a section on program evaluation which attempts to link costs to program performance and future goals.[23]

Another advantage of school-site budgeting is its likelihood of increasing the level of participation of both staff and community, as staff and parents will attempt to protect the turf of their individual schools and favorite programs. When five percent must be cut from a function-object budget, there is often an assumption that only those superfluous budget items will be cut or that an across the board cut will be relatively painless. Consequently, the level of support to maintain or increase the budget may be greater with a school-site budget than a function-object budget.

The relative advantage of a school-site budget may be especially great in districts like Fairfield, Connecticut, where the school district budget must be approved by the town council. Where the school district must compete with municipal services for financial support, the higher level of community and staff participation is especially important. In addition, greater participation is likely to have the highest relative payoff in wealthy communities, especially those where budget caps are not in existence, since these communities have the fiscal capacity to raise additional resources for the public school system. Wealthy communities are also more likely to accede to the demands for greater educational services, for they tend to show a

relatively high preference for both education and a minimum level of public conflict.[24] Consequently, the choice of a school-site budgeting system for this particular type of community may be an astute political decision.

While eighty percent of the districts in the United States are independent and, therefore, have control over setting the overall school budget, for dependent school districts, municipalities or the counties which determine the size of the overall budget must be considered as important political variables.

The degree to which equity is promoted by a school-site budgeting system depends on how resources are allocated to the school sites. In some districts the amount of funds allocated to a particular school may depend primarily on the number of students which may contribute to the costs of providing a certain quality education. These factors should be identified and additional resources provided where justified so that children from each school will be afforded an equal educational opportunity. Unfortunately, it is often very difficult to distinguish between those factors which are under the control of the principal from those that are not. In addition, some schools may have certain non-recurring expenses associated with a special educational project.

It is important to balance the need to be flexible in the short term with the need to ensure equity over the long run. In some districts, the varying abilities of principals to justify the need for additional resources, coupled with the fact that the community groups for some schools may have greater political resources, results in a system which is inequitable both in the short and the long run. Supporters of school-site budgeting may argue that this is no more of a problem where costs are broken down by school and made visible to the public, than in function-object budgets where inequities may be hidden. In fact, continuing the argument, such inequities are more likely to be identified and redressed when a school-site budget is utilized.

It is not necessarily clear who the "winners" and "losers" will be where school-site budgets are implemented. Generally speaking, it seems that those at the school level will have greater control over the budget and those at the central office will have less control than they do with a function-object budget. The actual realities are likely to vary from district to district. In some districts financial resources may be so tight that principals may have very little discretion. Consequently, the increased pressure they face from interest groups which may either want greater input and/or accountability may outweigh the benefits they see from having "greater financial control." Principals may face greater psychic costs by having to determine which of the requests made by teachers will be granted. Consequently, greater discretion over how resources are allocated may be costly in terms of the potential impact on the collegial relations between the principal and teachers and among teachers. The actual benefits of school-site budget will depend to a great extent on the level of trust between the principal and teachers.

The success of a school-site budgeting framework will also be dependent on the working relationships between the superintendent and principals. One potential abuse of a school-site budgeting system could be that some principals may be more likely to engage in "empire-building" and perhaps work at cross-purposes to district policies regarding students and staff. Where the school-site budget method is used effectively, it will be important that, while principals may have some discretion to meet the needs of their unique school communities, they also work closely

with the central office to achieve district-wide goals and maintain continuity. Where school boards allow special interest groups from any one particular school community to dominate the budgeting process, abuses similar to those of the ward-based election systems are likely to occur. It is, therefore, essential that school boards act for the benefit of the overall district, rather than promote the special interests of any one particular school community. Where school district communities are divided, a school-site budgeting system may not be advisable as it may result in intense conflict. When a choice is made to implement a school-site budgeting system, careful political judgment is needed to predict whether it would result in destructive conflict or a healthy discussion of the common and individual needs of various school communities. If intense conflict results, the overall level of community support for the budget may decrease.

Program Budgeting

As school districts may tend to move away from centralized approaches to budgeting, there is a growing interest in budgets which enable board members and interested community members to examine costs by program (e.g. high school science) rather than by function (e.g. instruction) or objects of expenditure (e.g. salaries). Those who favor program budgeting argue that an informed public is more supportive of the school budget. Having cost information available at the program level is expected to increase the ability of decision makers to achieve a cost-effective balance between increasing program quality and holding down unnecessary costs.

In 1965, Lyndon Johnson announced that a program planning and budgeting system would be used throughout the federal government.[25] Shortly after this announcement, school districts began to adapt some of the basic components in their budgeting systems. A number of school budgeting experts at the Association of School Business Officials International (ASBO) studied potential benefits of program budgeting and developed materials designed to increase the effectiveness of implementation. They defined program budgeting as follows:

> A structured procedure for determining policy in the allocation of resources for the accomplishment of priority programs; emphasizes long-range planning, analytic evaluative tools, economic rationality in the determination of programs and in the setting of goals and objectives.[26]

A few years later, ASBO developed *PPBES—Show and Tell Handbook* which was designed to provide timely information about the ways in which planning, programming, budgeting and evaluation systems had been implemented in a variety of school districts.[27]

Generally speaking, in order to implement PPBES, school districts must first determine what constitutes a *program* structure. In other words, they must identify the specific units to which resources will be allocated and where results will be evaluated. This can be decided after careful consideration of the district's goals and objectives based on a determination of sets of goals and objectives which are rationally related and, therefore, should be grouped together. More often than not, program structure is based on organizational structure. The latter works fine where common goals exist among organizational components. But, as discussed above, many have organizational structures which no longer serve current needs.

A classification of expenditures by program recommended by the National Center for Educational Statistics is as follows:[28]

REGULAR PROGRAMS-ELEMENTARY/SECONDARY
SPECIAL PROGRAMS
- Mentally retarded
  - Educable mentally retarded
  - Trainable mentally retarded
- Physically handicapped
  - Hard of hearing
  - Deaf
  - Deaf-blind
  - Visually handicapped
  - Speech impaired
  - Crippled
  - Other health impaired
- Emotionally disturbed
- Learning disabled
- Culturally deprived
- Bilingual
- Gifted and Talented
- Vocational programs
  - Agriculture
  - Distributive education
  - Health occupations
  - Home economics
    - Occupational
    - Consumer and homemaking
  - Industrial arts
  - Office occupations
  - Technical education
  - Trades and industrial occupations
  - Other vocational programs
- Other instructional programs-elementary/secondary
  - School-sponsored cocurricular activities
  - School-sponsored athletics
  - Other
- Nonpublic school programs
- Adult/continuing education programs
- Community/junior college educational programs
- Community services programs
  - Community recreation
  - Civic services
  - Public library services
  - Custody and child care services
  - Welfare activities
  - Other community services

Enterprise programs
Food services
Other enterprise programs
Undistributed expenditures

Second, *planning* is necessary to determine program priorities. In order to do this effectively one must take into account many factors including: the present composition of the student body, the way in which student needs are likely to change over the next five years, state or federal mandates, collective bargaining agreements, the fiscal capacity of the district, relative willingness of the voters to increase tax effort and state and federal aid. Some examination of the present and future roles that these factors will play in effecting resource requirements for both operating and capital expenditures will be necessary to build a budget that is not only suited to today's program needs but is also cost-effective for the long run.

For example, districts which build new schools without taking into account declining enrollments expected in the future may be able to devise a cost-effective alternative with adequate information. In other districts, it may be important to take into account the additional space requirements needed for new local or state programs (e.g. all-day kindergarten) or special education (especially where there is a shift in program priorities toward bringing children back to the district), before initiating a school closing or a capital construction project.

In building the actual *budget* it is important to take into account the priorities given to various programs and program alternatives, in the process of allocating scarce resources. The costs and relative effectiveness of each program and program alternative should be considered. While in theory, program information should reduce the reliance on incremental across-the-board changes in the budget, this is often not the case. In the absence of concrete evidence it is often easier to treat all programs the same. Unfortunately, educational technology is not advanced enough to tell us the benefits that can be derived from increasing expenditures for a given program by ten percent.

Evaluation which is an integral component of PPBES, is designed to provide more information about the effect of patterns of resource allocation on the degree to which program goals and objectives are successfully achieved. Information regarding outcomes is useful in building the next year's budget. In districts where the evaluation component is deemed too time-consuming, PPBS is often the preferred alternative.

Program budgeting may promote some kind of decentralization where subject coordinators and teachers are given more say about educational spending decisions. Those who are closest to the students may have the most accurate information about students' educational needs as well as what types of educational resources may be most effective. However, where subject coordinators and teachers are given more control over the budget it is crucial that the principal be informed about specific program priorities, in order to ensure coordination across grade levels and across subject areas. This may be especially difficult in large secondary schools.

In a similar manner, it may be difficult for district-level administrators to coordinate among schools in very large districts. Ironically, it is often in these very large schools and systems that decentralization of budgeting authority may be most beneficial, precisely because it is so difficult for principals and central office administrators to be fully informed about program needs. Consequently, better informa-

tion systems are needed to help administrators balance unique program needs against a need for continuity. Program budgeting, which includes an analysis of the relative effectiveness of a given program alternative, may be a move in the right direction.

Program budgeting should give rise to greater accountability than function-object budgeting. A focus on the priorities given to various programs and a concern for the degree to which program objectives are being met in a cost-effective manner may cause school officials to carefully reevaluate past practices. Programs which are no longer deemed useful to students (such as home economics) may be revamped or scaled down and new programs/alternatives may be tested and implemented in various school settings (e.g. computer assisted instruction).

Like school-site budgeting, program budgeting is likely to increase the level of staff and community participation as people attempt to protect their preferred programs. In a similar manner it is likely that the level of overall financial support for the schools will increase with a program budget, as groups seek to protect "their turf." At the same time, an important drawback of program budgeting is the likelihood of increase in "turf" squirmishes. The school board, staff or community may question why the costs for one program (e.g. English) are greater than for another (e.g. math). Differences in expenditures may result from relatively obscure reasons such as one program's teachers being more senior than another. In that case, it may be preferable to use average teacher salaries. Generally, program budgeting will require careful explanation of cost differences to the board and the public.

As with the school-site budgeting methods, care must be taken to ensure equity. While some programs may require greater expenditures, either due to greater student need or the fact that it is a high priority program, care should be taken to ensure that students are treated in an equitable manner. For example, districts should determine whether the more academically able students are taught by more experienced teachers, have more up-to-date equipment and have smaller classes than less academically able students, so that one group of students is not unfairly disadvantaged by the resource allocation process. At the present time, most districts cannot perform this analysis due to the lack of adequate cost information and a suitable management information system.

When compared to the function-object budget, one would expect that the incentive structure in a program budget would perpetuate the status quo with established programs while facilitating the introduction and development of new programs. In addition, one might also expect that subject matter coordinators and teachers would be more involved in budget development and implementation than in either function-object budget systems or school-site budget methods. It does not necessarily follow that this greater involvement will come at the expense of the influence over budget of the superintendent, business manager and the school board. Decisions about what programs will be funded will still be made at the district level. Program budgeting, however, with faster operational level information which can strengthen the ability of groups and schools to effectively present program needs to the community.

In addition, those at the district level have a great influence over program structure which can influence the degree to which some program costs are highlighted in a budget, while others remain hidden. One of the concerns about program budgeting in those states which have attempted to mandate its use, is that it may give too much control to those at the district level. The New Jersey Educational Associ-

ation recently opposed an attempt to mandate program budgeting in that state as they feared that, in those programs where the students' scores on standardized tests were low, teachers would be penalized.[29] Therefore, a high level of trust among the board, the superintendent and teachers may be a prerequisite to the successful implementation of program building.

Zero-Based Budgeting

Some school districts have implemented zero-based budgeting frameworks in order to promote accountability. Rather than utilizing an add-on or incremental approach, zero-based budgeting assumes that all budgeted items should be justified from zero. It assumes that those at the operational level specify the resources that are needed with various programmatic options to meet the overall goals of their programs, and that the most cost-effective program option or package is chosen. In addition, those at the operational level are asked to submit program packages under a few (usually three) different sets of assumptions. Using a general example, three levels of program operation might result from three types of budget assumptions as follow: 1) minimal—assuming a ten percent decrease in the programs budget; 2) facilitating—assuming the budget stays about the same, perhaps adjusted upward for inflation; and 3) optimal—assuming a ten percent increase in the budget. Program priorities are then considered when school officials decide which programs to fund at what level.

Those who support the zero-based budgeting (ZBB) concept argue that it allows those with expertise at the operational level (principals, department heads and teachers) have input into the budget making process giving them a feeling of "ownership." Second, they argue that school officials are encouraged to make decisions based on program priorities, rather than maintaining programs regardless of current need or merit. Third, ZBB may have important political ramifications. It may help to "sell a budget" to a board or a community concerned with accountability. As an example, one high school principal has stated that the implementation of ZBB in his district resulted in decreasing the time spent at board meetings justifying the budget because the justifications were already documented. ZBB may also increase both public understanding of the budget and financial support for it. For example, while this year's budget in a particular district resulted in a substantial increase over the previous year, using ZBB it became clear to the board and the public that much of the increase was needed to fund a "program package" needed to meet state-mandated reforms not under the district's control.

While both zero-based budgeting and program budgeting rely on a program structure, they also have some important differences. Hentschke has described the major tasks of ZBB as being:[30]

1. Formulate decision packages.
   a. Purpose of activity.
   b. Consequences of non performing.
   c. Measures of performances.
   d. Alternative courses of action.
   e. Cost/benefits.
2. Rank decision packages.

ZBB, which tends to have a bottom-up approach to budgeting, is common in industry where the goals of the subunits (e.g. making a profit) tend to be in line with the goals of the larger organization (e.g. making a profit). In school districts, on the other hand, the goals and objectives are numerous, diverse and complex. Consequently, the task of coordinating the goals and objectives at the school and classroom levels with those on the district level may be more difficult. In heterogeneous districts, however, schools within the system (and programs within the schools) which differ greatly regarding the nature of the students they serve, so more discretion at the school and program levels in determining spending priorities may be costeffective.

Program budgeting like PPBS involves the central office a great deal more than ZBB in designing a program structure and determining program priorities, and its tasks reflect this same central office orientation as follows:

1. Develop goal/objective hierarchy.
2. Develop programmatic classifications.
3. Sort organization's activities into programs.
4. Analyze alternative programs through cost/benefit analysis.
5. Develop multi-year program and financial plans.[31]

It is not intuitively obvious whether this task of coordination can be achieved more cost effectively with ZBB or PPBS. With ZBB top level decision makers are given more information as to the potential benefits of various program alternatives seen through the eyes of those at the program level. With PPBS top level decision makers may uncover unnecessary overlap and ineffiencies as they develop a goal/objective hierarchy and a program structure that serves the total system. Which framework may be more effective for a given district may depend on the degree to which a districts' organizational goals and objectives and program may fruitfully benefit from a review and the relative experience of top level decision makers as opposed to program level decision makers. Peter Pyhrr, one of the primary proponents of ZBB makes the case that the "identification and evaluation of each activity is especially helpful for managers assuming new responsibilities, since the packages and rankings provide a ready access library describing and analyzing the commitments of each activity."[32]

In "Zero-Based Budgeting is a Fraud," Robert Anthony notes that when former President Carter instituted ZBB in the state of Georgia, departments were expected to justify their budgets not from zero, but from eighty percent. It may not be a major drawback that each program package is not justified from zero each year. In fact, when applied to school districts where many of the programs are mandated or part of the district curriculum, one would not expect that a district would annually consider "zeroing-out" each program. Indeed, one of the major complaints of ZBB from school district officials is that such an in-depth review should only be undergone for non-essential programs, or that only certain proportion of the district's programs should be reviewed under the ZBB framework each year.

One potential problem of ZBB has to do with equity. If the existence or continuation of a program depends on the degree to which it can be justified, students in those programs where the developers of the decision packages are less experienced or less sophisticated may suffer as a result. While the incentive structure of ZBB is such that those at the operational level are given the opportunity to make the case for the promotion of their programs, it has some drawbacks. For example, staff may be rewarded more on the basis of their skills in public relations rather

than on their ability to create and manage effective educational programs. Consequently, it becomes important that those at the district level have a knowledge of actual program operations and performance, as well as their degree of public support. In addition, as one high school principal explained, it is important that teachers and subject coordinators present program needs accurately to ensure credibility with the principal, superintendent and board of education. In this way the budget may also seem more credible to the taxpayers.

Summary and Conclusions

In conclusion, choice of an appropriate budget method for a particular district may be an important decision for a variety of reasons. First, some budget methods (such as program budgeting, school-site budgeting and zero-based budgeting) may promote greater board and community understanding of the budget and ultimately the district's priorities. If the board and the community can see the connection between dollars and educational programs, it is likely that the school board will be more successful in selling the budget to the community, as well as determining which educational program priorities are seen as being important to the community.

Second, budget methods which result in better community understanding (and effective public relations) may result in increased financial support for schools in general. It is likely that a budget process which invites community participation will result in an increased level of support because the public feels more invested in the budget.[33]

Third, the choice of a particular budgeting method may restructure the incentive systems which influence curriculum coordination and effective and appropriate instructional programs. The benefits of a move toward greater decentralization may increase the ability of the school principal to effectively target resources to achieve program goals. One of the drawbacks to decentralization is that curriculum coordination across programs and schools may become difficult. Similarly, one of the benefits of budget methods which attempt to target resources to program needs, rather than incrementally applying an across-the-board increase, is that these methods aim to increase cost effectiveness. A potential drawback of a budget method which encourages principals, subject coordinators and teachers to "sell" their respective programs and projects is the inordinate amount of staff time needed to document needs for resources—staff time which might be better used for carrying out successful instructional programs. An effective management information system, open lines of communication among the staff and a concern for equity should ameliorate some of these problems, while allowing school administrators to both target resources to individual students' needs at the same time he or she manages a consistent and coherent educational program.

Finally, the relative influence of various political actors on the board and in the community may be altered with the implementation of a new budgeting method. One of the potential disadvantages of a budget method which does not use an "objective" formula to allocate resources is that politically active groups may be

in an advantageous position to lobby for additional funds. Therefore, when using certain budgeting models which allow for community participation, great care should be taken to effectively guard against undue influence of special interest groups. In the end, the degree to which children will receive equal access to educational resources will depend to a large extent, on the commitment of school officials to equity and excellence.

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